

**THE OHIO STATE UNIVERSITY  
MANAGED HEALTH CARE SYSTEMS, INC.**

**Financial Statements for the Years Ended  
June 30, 2003 and 2002**

**And  
Independent Auditors' Report**

---

**PARMS & COMPANY, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

---





**Auditor of State  
Betty Montgomery**

Board of Directors  
OSU Managed Health Care Systems, Inc.  
2080 Blankenship Hall  
901 Woody Hayes Drive  
Columbus, Ohio 43210-4016

We have reviewed the Independent Auditor's Report of the OSU Managed Health Care Systems, Inc., Franklin County, prepared by Parns & Company, LLC, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The OSU Managed Health Care Systems, Inc. is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

January 20, 2004

**This Page is Intentionally Left Blank.**

## INDEPENDENT AUDITORS REPORT

To the Board of Directors of  
The Ohio State University  
Managed Health Care Systems, Inc.

We have audited the accompanying balance sheets of The Ohio State University Managed Health Care Systems, Inc. (the Corporation) as of June 30, 2003, and the related statements of income and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of the Corporation for the year ended June 30, 2002, were audited by other auditors whose report thereon, dated September 23, 2002, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of The Ohio State University Managed Health Care Systems, Inc. at June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustment described in Note 4 that was applied to restate the 2002 financial statements. In our opinion, such an adjustment is appropriate and has been properly applied.

*Parms & Company, LLC*

November 18, 2003

**THE OHIO STATE UNIVERSITY  
MANAGED HEALTH CARE SYSTEMS, INC.**

**Balance Sheets**

**As of June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 191,501	\$ 293,370
Accounts receivable	66,440	35,432
Prepaid expenses	<u>79,321</u>	<u>21,198</u>
Total current assets	337,262	350,000
Property and Equipment:		
Furniture and equipment	199,266	199,266
Less: accumulated depreciation	<u>(198,594)</u>	<u>(190,578)</u>
Net property and equipment	672	8,688
Deferred Income Taxes	6,170	3,111
Other Assets - Deposit	<u>14,704</u>	<u>14,704</u>
Total Assets	<u>\$ 358,808</u>	<u>\$ 376,503</u>
<u>LIABILITIES AND RETAINED EQUITY</u>		
Current Liabilities:		
Account payables to affiliate	\$ 114,458	\$ 114,363
Income (benefit) taxes payable	(5,163)	8,867
Accrued salaries, wages, and related liabilities	<u>112,021</u>	<u>93,013</u>
Total current liabilities	221,316	216,243
Retained Earnings	<u>137,492</u>	<u>160,260</u>
Total Liabilities and Retained Earnings	<u>\$ 358,808</u>	<u>\$ 376,503</u>

The accompanying notes are an integral part of this financial statements.

**THE OHIO STATE UNIVERSITY  
MANAGED HEALTH CARE SYSTEMS, INC.**

**Income Statements**

**For the Years Ended June 30, 2003 and 2002**

	2003	2002
<b>Revenues:</b>		
Capitation fees from affiliate	\$ 2,624,980	\$ 2,148,620
Other capitation fees	160,283	150,795
Forgiveness of affiliate debt	-	71,917
Other revenues	15,955	49,824
Total revenues	2,801,218	2,421,156
<b>Expenses:</b>		
Salaries	1,506,112	1,461,421
Employee benefits	471,781	378,484
General and administrative	242,943	146,109
Purchased services	339,389	113,237
Office rental	126,346	92,780
Supplies	31,855	13,499
Reproduction services	40,887	33,627
Communications	64,246	6,201
Depreciation	8,016	15,982
Total expenses	2,831,575	2,261,340
Net Income Before Income Tax Expense	(30,357)	159,816
Income Tax Benefit (Expense)	7,589	(49,222)
Net Income	(22,768)	110,594
Retained Earnings, Beginning	160,260	49,666
Retained Earnings, Ending	\$ 137,492	\$ 160,260

The accompanying notes are an integral part of this financial statements.

**THE OHIO STATE UNIVERSITY  
MANAGED HEALTH CARE SYSTEMS, INC.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
<b>OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$ (22,768)	\$ 110,594
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	8,016	15,982
Deferred income taxes	(3,059)	13,397
Changes in assets and liabilities:		
Accounts receivable	(31,008)	(6,558)
Prepaid expenses	(58,123)	(17,376)
Accounts payable to affiliate	95	(108,666)
Deferred revenue	-	(174,299)
Other assets - deposits	-	(14,704)
Accrued salaries, wages and related liabilities	19,008	(7,559)
Income taxes payable	<u>(14,030)</u>	<u>(13,779)</u>
Net cash provided by operating activities	<u>(101,869)</u>	<u>(202,968)</u>
<b>NET DECREASE IN CASH</b>	<b>(101,869)</b>	<b>(202,968)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b><u>293,370</u></b>	<b><u>496,338</u></b>
<b>CASH AT END OF YEAR</b>	<b><u>\$ 191,501</u></b>	<b><u>\$ 293,370</u></b>

The accompanying notes are an integral part of this financial statements.



**THE OHIO STATE UNIVERSITY  
MANAGED HEALTH CARE SYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - The Ohio State University Managed Health Care systems, Inc. (the Corporation) was organized in December 1991 and began full operations on July 1, 1992 to promote and carry out educational, charitable and scientific purposes by conducting and supporting activities that are for the benefit, perform the functions, or carry out the purpose of The Ohio State University (OSU), principally its health plans, health care facilities and its College of Medicine without regard for profit or financial gain. The Corporation's primary activities are the performance of managed care services which include utilization review, case management and precertification to its contract holders and their participants on a capitation basis. Should the Corporation cease to exist, any net assets remaining after payment of all liabilities would revert to either a selected successor organization established for substantially the same purpose or absent such a selection to OSU.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash** - The majority of the Corporations's cash is maintained in OSU's cash account and is commingled with other OSU related entities. It is invested daily in overnight investment vehicles, which are considered cash equivalents. Investment income is allocated to the Corporation based on their ownership of the funds included in the OSU's account.

The bank balance which was uninsured by federal deposit insurance as of June 30, 2003 and 2002 was \$190,632 and \$291,030, respectively. The uninsured balances are collateralized by pools of securities pledged by the depository bank and are held in the name of the respective bank. The bank balance which was insured by federal deposit insurance as of June 30, 2003 and 2002, was \$1,614 and \$2,340, respectively.

**Property and Equipment** - Property and equipment is stated on the basis of cost. Depreciation of such assets is computed using the straight-line method over their estimated useful lives ranging from 5 to 7 years.

**Revenue Recognition** - The Corporation earns revenue for services on a predetermined contractual basis. The Corporation recognizes this revenue based upon a fixed fee per covered participant as specified in the participant contracts. Deferred revenue represents monies received in advance of the contract period.

**THE OHIO STATE UNIVERSITY  
MANAGED HEALTH CARE SYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Income Taxes* - The corporation is a taxable entity for Federal tax purposes. The Corporation provides deferred Federal income taxes for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for Federal income tax purposes. The Corporation is a non-charitable non-profit organization for state tax purposes.

*Reclassifications* - Reclassifications have been made to the 2002 financial statements to conform to the presentation used in 2003.

**2. RELATED PARTY TRANSACTIONS**

The Corporation's sole beneficiary is OSU. The Corporation's Board of Directors, consisting of six members, are appointed based on their affiliation with OSU. In addition, the Corporation is associated through both a participant contract for services and an administrative service agreement.

Under the terms of the participant contract, the Corporation receives capitation fees for services provided to OSU faculty and administrative staff.

Under the terms of the administrative agreement, the Corporation receives administrative services from OSU, principally personnel, fringe benefits (including employee participation in the OSU pension plan) and other operating items, and reimburses OSU for these services. Substantially all expenses in 2003 and 2002 were incurred under the terms of this agreement. Accounts payable to affiliate of \$114,458 and \$114,363 at June 30, 2003 and 2002, respectively, represent amounts owed to OSU under these arrangements. Additionally, in 1992 OSU advanced funds to the Corporation for the purchase of furniture totaling \$71,917, of which the full amount has been forgiven in 2002 and is included in the accompanying financial statements as a forgiveness of affiliate debt. Also, in prior years the Corporation had accrued a liability to the University for legal fees of \$14,259. During 2003, it was determined that the Corporation was not going to be required to pay this liability to the University. Consequently, the \$14,259 liability was written off and has been included as miscellaneous income in 2003.

**3. INCOME TAXES**

The provision (benefit) for Federal income taxes for the years ended June 30, 2003 and 2002, respectively, are as follows:

	<u>2003</u>	<u>2002</u>
Current	\$( 4,530)	\$35,432
Deferred	<u>( 3,059)</u>	<u>13,790</u>
Total	<u>\$ (7,589)</u>	<u>\$49,222</u>

**THE OHIO STATE UNIVERSITY  
MANAGED HEALTH CARE SYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

---

**3. INCOME TAXES - (Continued)**

Components of the Corporation's net deferred tax assets are as follows:

	<u>June 30,</u>	
	<u>2003</u>	<u>2002</u>
Deferred tax assets - excess book depreciation	<u>\$ 6,170</u>	<u>\$ 3,111</u>

For 2003, the current year tax benefit was estimated based on utilization of the current net operating loss as a carryback against prior year taxable income.

**4. PRIOR PERIOD RESTATEMENT**

A prior period restatement was recorded to correct for an error in recording the 2002 tax provision. The current tax provision for 2002 as previously reported was \$54,204. The corrected provision was \$49,222. In addition, the value of deferred taxes due to the cumulative effect of depreciation for tax purposes over book basis were restated from \$16,901 to \$3,111. The 2002 financial statements have been adjusted to reflect this correction.

**This Page is Intentionally Left Blank.**



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**OHIO STATE UNIVERSITY MANAGED HEALTH CARE SYSTEMS, INC.**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 3, 2004**